

Focus on Not-For-Profits: Should Your Church Be Audited?

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The answer to that question depends upon the needs of your church. Do the church's by-laws require an audit? Does your church have a loan covenant that requires an audit or are there plans for a future facility or renovations that will require financing? Would the additional accountability provided by an external audit provide comfort to your congregation and the community? Is the church interested in the by-products of an audit, such as suggestions to strengthen internal controls surrounding cash processes? Or, is your church required by a voluntary membership organization to conduct an audit as a condition of membership and accreditation?

If an audit is not required, are there other types of services that should be considered? Perhaps it would be helpful to know the differences between an audit, a review and a compilation in considering your church's needs.

The objective of a compilation is to take information that is in the church's general ledger and compile financial statements in much the same format as would be derived from a review or an audit. A compilation requires the certified public accountant (CPA) to have knowledge of the industry and accounting principles. Your internal numbers will be compiled into a financial statement format that meets the standards of generally accepted accounting principles (GAAP) or an other comprehensive basis of accounting (OCBOA), such as cash basis. Adjusting entries may be proposed if there are obvious departures from GAAP or OCBOA, but generally the internally-produced financial records will be utilized. The financial statements may also contain footnotes, although they are not required. The accountant's report would not express an opinion or any other form of assurance. As a compilation involves less work, the cost can be substantially less than a review or an audit. A compilation would provide your organization with standard financial statements that it could use to show its congregation and other potential donors how collected money is being spent; however, no assurance would be provided by the CPA.

The objective of a review is to provide "limited assurance" that the financial statements do not have known errors or departures from generally accepted accounting principles. Different from a compilation, a review requires the CPA to be independent from your church and to have an increased understanding of your business. Additionally, the CPA must perform inquiry and analytical procedures. Additional procedures may be performed if information obtained is questionable. The accountant's report states that a review has been performed in accordance with AICPA professional standards, that a review is less in scope than an audit and that the CPA did not become aware of any material modifications that should be made in order for the statements to be in conformity with GAAP. Churches may engage CPA's to review their financial statements when they have bank loans and the lenders do not require audited financial statements.

The third and highest level of assurance service is an audit. The objective of an audit is to provide reasonable, but not absolute, assurance that the financial statements are presented in accordance with GAAP. An audit includes all of the procedures conducted in a compilation or review but additionally requires the auditor to have an extensive knowledge of the economy, the relevant industry and your business. During an audit, verification and substantiation procedures are performed (including, but not limited to, third party verification of cash, investment and debt balances, direct correspondence with creditors, physical inspection of assets, sample testing of transactions, review of board/committee minutes, contracts, etc.). When performing an audit, the auditor is required to have knowledge and understanding of the system of internal controls in place and must assess the risk the controls may not prevent, or detect and correct, material misstatements of the financial statements on a timely basis. An auditor's report states that an audit was performed in accordance with generally accepted auditing standards and expresses an opinion that the financial statements present fairly the entity's financial position and results of operations. While the auditor does not express an opinion on the church's internal

For more information, please contact:

Judy Murphy, CPA — St. Louis

Partner-In-Charge
Not-For-Profit Services Group
314.290.3496
judy.murphy@rubinbrown.com

Amy Altholz, CPA — St. Louis

Partner & Vice Chair
Not-For-Profit Services Group
314.290.3369
amy.altholz@rubinbrown.com

Debra Leible, CPA — St. Louis

Manager-In-Charge
Religious Organizations Segment
314.290.3412
debra.leible@rubinbrown.com

Sharon Latimer, CPA — Kansas City

Partner
Not-For-Profit Services Group
913.499.4407
sharon.latimer@rubinbrown.com

Evelyn Law, CPA — Denver

Partner
Not-For-Profit Services Group
303.952.1245
evelyn.law@rubinbrown.com



controls, it may identify material weaknesses or significant deficiencies in internal control. The auditor may offer suggestions to improve internal controls, as well as opportunities to improve efficiency, and best practices regarding policies, procedures and corporate governance.

If your church determines an audit is not desired at this time, yet is concerned about strengthening internal controls, improving segregation of duties, developing accounting policies and procedures, and implementing best practices related to oversight and governance, another type of engagement may be beneficial. An agreed-upon procedures or consulting project could be tailored to focus on the specific issues and concerns identified by the church, as well as provide assistance in implementing the recommended improvements. These procedures generally take less time than an audit but can make a real impact by improving the controls and efficiencies of your day-to-day operations. This would protect not only the dollars that have been given to your church, but also your staff's integrity and your congregation's peace of mind.

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